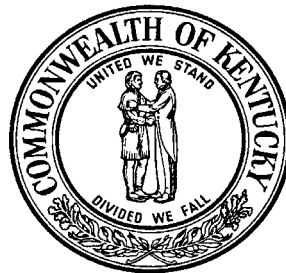


**REPORT OF THE AUDIT OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

May 31, 2002



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

May 31, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Johnson County Sheriff as of May 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,148,215 for the districts for 2001 taxes, retaining commissions of \$211,595 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,936,843 to the districts for 2001 Taxes. Net refunds of \$1,168 are due to the Sheriff from the taxing districts.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable R. T. Daniel, Johnson County Judge/Executive
Honorable William D. Witten, Johnson County Sheriff
Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the Johnson County Sheriff's Settlement - 2001 Taxes as of May 31, 2002. This tax settlement is the responsibility of the Johnson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Johnson County Sheriff's taxes charged, credited, and paid as of May 31, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky
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Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable R. T. Daniel, Johnson County Judge/Executive
Honorable William D. Witten, Johnson County Sheriff
Members of the Johnson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 10, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 10, 2003

JOHNSON COUNTY
WILLIAM D. WITTEN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

May 31, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 474,550	\$ 540,987	\$ 2,583,221	\$ 645,388
Tangible Personal Property	60,751	61,693	313,807	132,677
Intangible Personal Property				50,725
Fire Protection	2,586			
Taxes Increased Through Erroneous Assessments	54	61	245	73
Franchise Corporation	81,546	84,225	359,202	
Additional Billings	1,136	1,295	6,172	1,544
Unmined Coal - 2001 Taxes	4,317	4,921	19,728	5,871
Oil and Gas Property Taxes	8,419	9,598	38,475	11,449
Penalties	4,283	4,837	21,556	6,199
Adjusted to Sheriff's Receipt	(3)	98	488	1
Gross Chargeable to Sheriff	<u>\$ 637,639</u>	<u>\$ 707,715</u>	<u>\$ 3,342,894</u>	<u>\$ 853,927</u>
<u>Credits</u>				
Exonerations	\$ 8,042	\$ 9,051	\$ 41,836	\$ 12,992
Discounts	7,502	8,384	40,821	11,920
Delinquents:				
Real Estate	27,926	31,650	138,739	37,758
Tangible Personal Property	1,025	1,041	4,829	2,700
Intangible Personal Property				495
Unmined Coal - 2000 Taxes	194	221	885	263
Uncollected Franchise	854	964	3,868	
Total Credits	<u>\$ 45,543</u>	<u>\$ 51,311</u>	<u>\$ 230,978</u>	<u>\$ 66,128</u>
Taxes Collected	\$ 592,096	\$ 656,404	\$ 3,111,916	\$ 787,799
Less: Commissions *	<u>25,452</u>	<u>27,897</u>	<u>124,477</u>	<u>33,769</u>
Taxes Due	\$ 566,644	\$ 628,507	\$ 2,987,439	\$ 754,030
Taxes Paid	566,884	628,432	2,987,874	753,653
Refunds (Current and Prior Year)	<u>266</u>	<u>296</u>	<u></u>	<u>383</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (506)</u>	<u>\$ (221)</u>	<u>\$ (435)</u>	<u>\$ (6)</u>

The accompanying notes are an integral part of the financial statement.

JOHNSON COUNTY
WILLIAM D. WITTEN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
May 31, 2002
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,026,299
4% on	\$	3,111,916

** Special Taxing Districts:

Library District	\$	(98)
Health District		(93)
Extension District		(33)
Soil Conservation		<u>3</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>(221)</u></u>
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JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENTS

May 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

JOHNSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
May 31, 2002
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 15, 2001, through May 31, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 23, 2001 through May 31, 2002.

Note 4. Interest Income

The Johnson County Sheriff earned \$8,489 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of January 10, 2003, the Sheriff owes \$163 in interest to the school district and \$410 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Johnson County Sheriff collected \$30,081 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of January 10, 2003, the Sheriff owes \$8,512 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Johnson County Sheriff collected \$1,020 of advertising costs and \$1,200 of letter fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the letter fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2001 taxes, the Sheriff had \$1,000 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

JOHNSON COUNTY
WILLIAM WITTEN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

May 31, 2002

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

OK.

PRIOR YEAR:

1. Former Sheriff Gay Cyrus Should Eliminate The \$7,811 Deficit In Her 1992 Tax Account

There was a deficit of \$17,559 in the former Sheriff's 1992 Tax Account. This deficit resulted from undeposited 1992 tax receipts discovered in the 1992 tax audit. The deficit of \$17,559 has been reduced by payments of \$9,748 made March 20, 2000, leaving a balance of \$7,811 owed to the following taxing districts.

Johnson County School District	\$7,017
Paintsville Independent School District	<u>794</u>
Total	<u>\$7,811</u>

As of January 10, 2003, no additional payments have been made toward this deficit. We recommend the former Sheriff Gay Cyrus deposit personal funds of \$7,811 to eliminate this deficit.

A bank account at Citizens National Bank # 2-168-7 with Gay Cyrus, Sheriff as the authorized signatory remains active with a balance of \$197 at April 30, 2002. This account is being charged a \$10 service fee each month. This account should be closed to avoid additional service fees.

KRS 64.820(1) states the fiscal court shall collect any amount due the county from the county official as determined by the audit if the amount can be collected without suit. KRS 64.820 (2) states that in the event the fiscal court cannot collect the amount due the county from a county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported in the audit. Pursuant to KRS 64.820(1), the fiscal court has directed the county attorney to institute suit for collection of the amounts due.

JOHNSON COUNTY
 WILLIAM WITTEN, COUNTY SHERIFF
 COMMENT AND RECOMMENDATION
 May 31, 2002
 (Continued)

2. Former Sheriff Don McFaddin Should Eliminate An Accumulated Deficit of \$11,592 In His Tax Accounts

Former Sheriff Don McFaddin has a deficit of \$11,592 in his tax account. These deficits resulted from undeposited tax receipts discovered during prior audits. The amounts owed the different taxing districts are as follows:

<u>TAXING DISTRICTS</u>	<u>1,993</u>	<u>1,998</u>	<u>1,997</u>	<u>Total</u>
Johnson County School	\$ 4,125	\$ 3,177	\$ 1,256	\$ 8,558
Library			89	89
Health		2,818	92	2,910
Extension			29	29
Soil Conservation			6	6
Total	<u>\$ 4,125</u>	<u>\$ 5,995</u>	<u>\$ 1,472</u>	<u>\$ 11,592</u>

As of January 10, 2003, no additional payments have been made toward this deficit. We recommend the former Sheriff, Don McFaddin, deposit personal funds to eliminate this deficit.

KRS 64.820 (1) states the fiscal court shall collect any amount due the county from the county official as determined by the audit if the amount can be collected without suit. KRS 64.820 (2) states that in the event the fiscal court cannot collect the amount due the county from a county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported in the audit. Pursuant to KRS 64.820(1), the fiscal court has directed the county attorney to institute suit for collection of these amounts.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Johnson County Sheriff's Settlement - 2001 Taxes as of May 31, 2002, and have issued our report thereon dated January 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Johnson County Sheriff's Settlement - 2001 Taxes as of May 31, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 10, 2003

